

Annual Report to the Board of Land Commissioners

from the
Endowment Fund Investment Board



November 14, 2006

State of Idaho Endowment Funds Financial Summary Fiscal Year 2006

Compared to the previous year:

- Total fund balances increased \$105 million, or 12.5%, to a record high of \$950 million
- Earnings reserve balances increased \$37 million, or 69%, to a record high of \$91 million
- Receipts from endowment lands rose to \$69 million, a 20% increase
- Distributions to all beneficiaries, net of a \$4.6 million contribution to two endowments from the General Fund, declined 4.4% to \$36 million

Total investment return, before fees, was 10.9% for the year and 12.5% annualized for the last three years.

The Public School Permanent Fund closed the year above its loss benchmark for the first time in five years.

This is a summary of the FY2006 financial statements of the endowment funds that were distributed to the Land Board in October.

Fiscal Year 2006 Audit Summary
State of Idaho Endowment Funds
Administered by the Endowment Fund Investment Board

1. Independent Auditor's Report on the financial statements (page 1)
 - Unqualified opinion – all the assets that should be in the fund have been accounted for
2. Independent Auditor's Report on compliance and internal controls (page 25)
 - Found no reportable conditions:
 - No instances of noncompliance with laws and regulations
 - No material weaknesses in our internal controls

Submitted by:
R. John Taylor
Chairman, Audit Committee
Endowment Fund Investment Board

Status of compliance with Investment Policy

The Endowment Fund Investment Board maintains an Investment Policy for the overall fund and has established related contractual compliance guidelines for each investment manager.

During fiscal year 2006 there were no material violations of these policies and compliance guidelines. The Investment Policy was last reviewed and revised at the EFIB's August 2006 meeting.

Board meeting report

Meetings held

During the period November 2005 thru October 2006, the Endowment Fund Investment Board held:

- 4 Regular Board Meetings
- 1 Special Board Meeting
- 2 Audit Committee Meetings
- 1 Compensation Committee Meeting
- 0 Executive Committee Meetings

Attendance

For the 5 board meetings held, an average of 76% of the board members attended. Three members attended all meetings and no member had less than 40% attendance.

Special expertise

- A deputy attorney general representing the EFIB was present for all five board meetings.
- The board's asset consultant made a report at all four of the regular board meetings.

Excerpt of:
Strategic Plan
FY2007 and Beyond

**Endowment Fund Investment
Board
Of the State of Idaho**



Finalized August 15, 2006
***Excerpt prepared for the Board of Land
Commissioners, November 14, 2006***

State statute required every agency, including the EFIB, to prepare a Strategic Plan according to a new format in 2006. This an excerpt of the Mission, Goals and performance measurement sections relevant to the management of the endowment funds

Mission of the Endowment Fund Investment Board

Provide professional investment management services to our stakeholders consistent with our constitutional and statutory mandates.

Goals

We will provide good investment advice and the tools for implementing that advice. As our clients' individual needs require, we will:

- Develop a prudent long-term investment strategy
- Select the best portfolio managers and other agents to execute that strategy
- Diligently evaluate performance over time
- Develop an effective spending policy
- Help them fulfill their fiduciary responsibilities and communicate with their stakeholders

For our employees, we will:

- Create a work environment which motivates and retains a knowledgeable and professional staff

Strategic Plan – Performance Measures (returns gross of fees)

Performance Measure/Benchmark	2003	2004	2005	2006	4-Year Average
1. ABSOLUTE RETURN:					
Real Return	-2.8%	13.5%	7.2%	6.6%	6.1%
Benchmark: Real return (net of inflation) greater than 4%					
2. RETURN VS. BENCHMARK:					
Total Return	-0.7%	16.8%	9.7%	10.9%	9.2%
Benchmark	4.1%	14.2%	8.6%	8.7%	8.9%
Excess	-4.8%	2.6%	1.1%	2.2%	0.3%
Benchmark: Exceed benchmark (56% Russell 3000, 14% EAFE, 30% Lehman Aggregate) on a risk-adjusted basis					
3. RETURN VS. PEERS:					
Total Return	-0.7%	16.8%	9.7%	10.9%	9.2%
Balanced Median Return	2.7%	11.9%	7.3%	12.7%	8.7%
Excess	-3.4%	4.9%	2.4%	-1.8%	0.5%
Benchmark: Exceed the median of peers on a risk adjusted basis					
Total Return	-0.7%	16.8%	9.7%	10.9%	9.2%
Public Funds Universe	4.3%	16.5%	10.4%	10.0%	10.3%
Excess	-5.0%	0.3%	-0.7%	0.9%	-1.1%
Benchmark: Exceed the median of peers on a risk adjusted basis					
4. The length of time that the Public School Permanent Fund is below the loss benchmark	3 yrs	4 yrs	5 yrs	0 yrs	
Benchmark: Less than 10 years below the cumulative loss benchmark					
5. The quality of recommendations to the Land Board regarding the level of distributions	\$57.0 M.	\$55.1 M.	\$37.4 M.	\$35.7 M.	2007: \$35.8 M. 2008: \$38.6 M.
Benchmark: No reduction in the total endowment distribution					